

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

FINANCIAL STATEMENTS

DECEMBER 31, 2011

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

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PURDY & COMPANY
CERTIFIED PUBLIC ACCOUNTANT

Independent Auditors' Report

To the Board of Directors
Eucalyptus Grove Homeowners' Association

We have audited the accompanying Balance Sheet of Eucalyptus Grove Homeowners' Association as of December 31, 2011, and the related Statements of Revenues, Expenses and Changes in Fund Balances, and Cash Flows for the year then ended. These financial statements are the responsibility of the Association's board of directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Eucalyptus Grove Homeowners' Association as of December 31, 2011, and the result of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of operating fund expenses is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Note 2 - Replacement Fund of the accompanying notes to financial statements is presented for analytical purposes. We have applied certain limited procedures, which consisted of inquiries of management regarding the methods of measurement and presentation of the supplementary data. However, we did not audit the information and express no opinion on it.

January 31, 2012



EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

BALANCE SHEET DECEMBER 31, 2011

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
ASSETS			
Cash - Operating	\$5,000		\$5,000
Community West Bank-Money Market		\$28,628	28,628
Community West Bank-CDARS		1,365,000	1,365,000
Assessments Receivables-Net	33,720		33,720
Prepaid Insurance	48,713		48,713
Prepaid Taxes		419	419
TOTAL ASSETS	<u>\$87,433</u>	<u>\$1,394,047</u>	<u>\$1,481,480</u>
LIABILITIES			
Accounts Payable	\$8,180		\$8,180
Prepaid Assessments	6,040		6,040
TOTAL LIABILITIES	<u>14,220</u>	<u>0</u>	<u>14,220</u>
FUND BALANCES	73,213	1,394,047	1,467,260
TOTAL LIABILITIES & FUND BALANCES	<u>\$87,433</u>	<u>\$1,394,047</u>	<u>\$1,481,480</u>

See Accountant's Audit Report.

The accompanying notes are an integral part of these financial statements.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
REVENUES			
Member Assessments	\$812,280		\$812,280
Interest		\$4,444	4,444
Late Charges	3,004		3,004
Miscellaneous	980		980
TOTAL REVENUES	<u>816,264</u>	<u>4,444</u>	<u>820,708</u>
EXPENSES			
Operating & Income Taxes	249,573	993	250,566
Administrative	148,197		148,197
Reserve Expenses		218,774	218,774
TOTAL EXPENSES	<u>397,770</u>	<u>219,767</u>	<u>617,537</u>
Excess (deficiency) of revenues over expenses	418,494	(215,323)	203,171
Beginning fund balances	78,261	1,185,828	1,264,089
Transfer into (out of) funds	(423,542)	423,542	0
ENDING FUND BALANCES	<u>\$73,213</u>	<u>\$1,394,047</u>	<u>\$1,467,260</u>

See Accountant's Audit Report.

The accompanying notes are an integral part of these financial statements.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

STATEMENT OF CASH FLOW FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>OPERATING FUND</u>	<u>RESERVE FUND</u>	<u>TOTAL</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Excess Revenues over (Expenses)	\$418,494	(\$215,323)	\$203,171
Adjustments to reconcile Excess Revenue to net cash provided by operating activities:			
Reserve Expenses		219,767	219,767
(Increase) Decrease in Current Assets:			
Assessments Receivable	5,580		5,580
Prepaid Taxes		993	993
Prepaid Insurance	445		445
Increase (Decrease) in Current Liabilities:			
Accounts Payable	(1,186)		(1,186)
Prepaid Assessments	209		209
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>423,542</u>	<u>5,437</u>	<u>428,979</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Reserve Expenditures		(219,767)	(219,767)
NET CASH (USED) BY INVESTING ACTIVITIES		<u>(219,767)</u>	<u>(219,767)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Transfer to Reserve Fund	(423,542)	423,542	0
NET CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES	<u>(423,542)</u>	<u>423,542</u>	<u>0</u>
NET INCREASE (DECREASE) IN CASH	<u>0</u>	<u>209,212</u>	<u>209,212</u>
CASH & EQUIVALENTS AT BEGINNING OF YEAR	<u>5,000</u>	<u>1,184,416</u>	<u>1,189,416</u>
CASH & EQUIVALENTS AT END OF YEAR	<u><u>5,000</u></u>	<u><u>1,393,628</u></u>	<u><u>1,398,628</u></u>
SUPPLEMENTAL DISCLOSURE:			
Income Taxes Paid		\$0	\$0

See Accountant's Audit Report.

The accompanying notes are an integral part of this financial statement.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION

SCHEDULE OF OPERATING FUND EXPENSES FOR THE YEAR ENDED DECEMBER 31, 2011

OPERATING EXPENSES

Electricity	\$18,929
Exterminating	1,250
Janitorial	13,425
Landscaping & Gardening	74,156
Miscellaneous	743
Pool Maintenance & Supplies	21,024
Repairs & Maintenance	47,429
Rubbish Removal	42,605
Supplies	5,252
Telephone	443
Water & Sewer	24,317

TOTAL OPERATING EXPENSES

249,573

ADMINISTRATIVE EXPENSES

Audit and Tax Preparation	1,275
Bad Debt Expense	14,500
Insurance	101,595
Management Fees	27,264
Other Taxes & License	10
Professional Fees	3,553

TOTAL ADMINISTRATIVE EXPENSES

148,197

TOTAL OPERATING FUND EXPENSES

\$397,770

See Accountant's Audit Report.

The accompanying notes are an integral part of these financial statements.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

- A. Eucalyptus Grove Homeowners' Association is an Association of 179 units, organized and operated to provide for the management, maintenance and care of Association property and common areas. In addition to such duties, the Association maintains architectural control, enforces its protective restrictions, and promotes the general welfare of the community comprising the Association.
- B. The Association maintains its books and records on the accrual basis of accounting. As a result, revenues are recorded when earned, and expenses are recorded when incurred.
- C. The Association is a not-for-profit organization, which employs a fund method of accounting. The fund method properly accounts for restrictions on the expenditures resulting from actions of the Board of Directors or the Association voting membership.

These financial statements separate funds into two classes. The first is the operating fund; these are funds whose disposition is at the discretion of the Board of Directors and the property manager and are generally used for operating expenses. The second is the unrestricted Reserves; these are to be used for replacement of common area expenditures and may be used for general operating purposes.

It is the Association's policy that any excess funds at the end of the operating year will be allocated to the following year or held as additional funds for the replacement of Association assets.

- D. The Association's checking and savings accounts, as well as its primary accounting records, are maintained by Bartlein & Company, Inc., located in Santa Barbara, California. Bartlein & Company, Inc. has been issued a Fidelity Bond in the amount of \$500,000. The insured party is Bartlein & Company, Inc.
- E. Association members are subject to monthly assessments of \$380. The assessment receivable balance as of December 31, 2011 represents monthly assessments, late fees, fines and other charges due from the homeowners. The Association uses the allowance method to account for uncollectible assessments.
- F. For purposes of the Statement of Cash Flows, the Association considers cash equivalents to be all certificates of deposit with a maturity of up to 24 months.
- G. The Association has used estimates in the preparation of the financial statements to be in conformity with generally accepted accounting principles.

EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 - INCOME TAXES

Eucalyptus Grove Homeowners' Association files income taxes on a calendar year end. The Association has elected to be taxed as a regular corporation under the provisions of Section 277 of the Internal Revenue Code. Accordingly, the Association has taxable income of \$4,060 Federal income tax liability of \$609 for the year ended.

The Association has been granted a Section 23701 (t) exemption by the State of California. Any income from sources other than membership dues, fees, and assessments (exempt-function income) is taxable if it exceeds \$100 per year. The Association has non-exempt function income of \$4,344. State income tax liability on this income is \$384.

NOTE 3 - REPLACEMENT RESERVES

The Association's governing documents require that funds be accumulated for future major repairs and replacements. Accumulated funds are held in separate savings accounts and are generally not available for expenditures for normal operations. A formal independent reserve study determines the adequacy or deficiency of the association's actual reserves compared to the calculated reserve requirement. Actual replacement costs and major improvements are utilized to determine the optimum reserve requirement. A reserve study was conducted by the Board of Directors and distributed to the homeowners.

Funds are being accumulated in the replacement fund based on estimated future costs for repairs and replacements of common property components. As of December 31, 2011, the reserves were 66% funded. Actual expenditures and investment income may vary from the estimated amounts and the variations may be material. Therefore, amounts accumulated in the replacement fund may not be adequate to meet all future needs for major repairs and replacements. If additional funds are needed, the Association has the right, subject to membership approval, to increase regular assessments, pass special assessments, or delay major repairs and replacements until funds are available. The following table is based on the study and presents significant information about the components of common property as of December 31, 2011.

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

<u>COMPONENT</u>	<u>EXPECTED DATE DUE</u>	<u>CURRENT REPLACEMENT COST</u>	<u>REQUIRED RESERVES 12/31/11</u>	<u>CURRENT RESERVES 12/31/11</u>
Foundation Waterproofing	2012	\$165,000	\$165,000	\$165,000
Gate Operator (Slide)	2012	2,800	2,800	2,800
Gate Operator (Slide)	2012	2,800	2,800	2,800
Paint Wood/Metal Trim	2012	77,000	77,000	77,000
Roof Shingle (Balance)	2012	80,000	80,000	80,000
Dryrot Repairs	2012	300,000	300,000	300,000
Spa Filter	2012	1,250	1,250	1,250
Stair Landing Reseal	2012	15,600	15,600	15,600
Termite Fumigation (Bal)	2012	6,000	6,000	6,000
Tree Trimming	2012	16,500	16,500	16,500
Paint-Wood Siding	2012	156,000	156,000	156,000
Paint Carports	2012	84,000	84,000	84,000
Paint Metal Fence & Rail	2012	6,800	6,800	6,800
Asphalt Seal Coat/Repair	2012	42,000	42,000	42,000
Cabana Water Heater	2012	2,600	2,600	2,600
Mailbox Pagodas	2012	14,000	14,000	14,000
Pool Pump	2012	850	850	850
Spa Pumps	2012	1,700	1,700	1,700
Lights-Street Fixtures	2013	22,400	21,600	21,600
Paint Front Wood Fence	2013	6,600	5,500	5,500
Termite Fumigation (7606)	2014	6,000	5,200	5,200
Asphalt Overlay	2015	180,000	162,000	162,000
Cabana Floor & Wall Tile	2015	10,400	9,360	9,360
Metal Pool Fence (6')	2015	15,000	13,500	13,500
Spa Retile	2015	6,000	5,400	5,400
Stair Rails (3.5')	2015	13,000	11,700	11,700
Cabana Sauna/Bath Rem.	2015	5,000	4,500	4,500
Termite Fumigation (8630)	2015	6,000	4,800	4,800
Pool Filter	2016	1,300	867	867
Pool Heater	2016	3,300	1,980	1,980
Sauna Heater	2016	2,600	1,907	1,907
Spa Heater	2016	3,300	1,650	1,650
Termite Fumigation (7634)	2016	6,000	4,400	4,400
Bridge Repair	2017	11,000	7,333	7,333
Termite Fumigation (7620)	2017	6,000	4,000	4,000
Card Readers/Buzzers	2018	4,400	2,200	2,200
Roof-Metal Carport	2018	180,000	144,000	144,000
Termite Fumigation (7632)	2018	6,000	3,600	3,600
Termite Fumigation (7610)	2019	6,000	3,200	3,200
Subtotal		1,475,200	1,393,597	1,393,597

**EUCALYPTUS GROVE HOMEOWNERS ASSOCIATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011**

<u>COMPONENT</u>	<u>EXPECTED DATE DUE</u>	<u>CURRENT REPLACEMENT COST</u>	<u>REQUIRED RESERVES 12/31/11</u>	<u>CURRENT RESERVES 12/31/11</u>
Subtotal		1,475,200	1,393,597	1,393,597
Termite Fumigation (7602)	2019	6,000	3,200	31
Stair Landing Resurface	2020	44,200	26,520	0
Split Rail Fence	2020	6,300	4,860	0
Structural Plumbing	2020	600,000	462,857	0
Pool Refiberglass	2020	10,000	3,333	0
Exercise Room Equipment	2021	7,000	2,800	0
Intercom	2021	3,900	1,560	0
Slide Gates	2022	6,400	3,840	0
Termite Fumigation (7624)	2023	6,000	1,600	0
Termite Fumigation (7636)	2023	6,000	1,600	0
Termite Fumigation (7640)	2023	6,000	1,600	0
Termite Fumigation (7628)	2025	6,000	800	0
Siding Replacement	2025	330,000	115,500	0
Termite Fumigation (7626)	2025	6,000	800	0
Front Wood Fence	2027	30,000	7,500	0
Pool Tile/Coping	2028	3,400	680	0
Pool Decking	2028	11,000	2,200	0
Sauna Remodel	2028	5,400	1,080	0
Roof Shingle 7602, 06	2036	79,500	3,180	0
Gutters/Downspouts	2029	42,000	13,440	0
Roof Shingle 7626, 30	2031	79,500	19,080	0
Roof Shingle 7624 & 28	2034	53,000	6,360	0
Roof Shingle 7636 & 38	2035	53,000	4,240	0
		<u>\$2,875,800</u>	<u>\$2,082,227</u>	<u>\$1,393,628</u>